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SUBJECT: DOWN IN THE DELTA: ANECDOTES ON EGYPT'S SLOWING
ECONOMY

REF: A. CAIRO 428
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[1](#)1. (U) KEY POINTS

-- Companies in the Egyptian Delta are beginning to feel the effects of the global economic slowdown, though the full extent of the impact is not yet known.

-- In the Gharbia and Dakahlia governorates, we have yet to see evidence of large-scale layoffs or business closures.

-- Export-led industries are being severely impacted, and many business owners complain that the strength of the Egyptian Pound is making them less competitive in a shrinking market.

COMMENT

[1](#)2. (SBU) The managers of the factories we visited were uneasy about the future prospects of the near-term Egyptian economy. Though there was some hope that a continued strong domestic economy would serve as a bit of a buffer from global economic turmoil, exports are clearly dropping and will continue to slide. For now, businesses appear to be resisting layoffs, but these too may be inevitable if growth continues to slow. The relative strength of the Egyptian Pound against both the Euro and the various currencies of Egypt's trade competitors continues to cause trouble for exporters.

BACKGROUND

[1](#)3. (U) In a recent visit to two Egyptian Delta governorates, Gharbia and Dakahlia, we visited three factories in the textile and food industries. In each of the factories, we were told that business was down, and that exports were dropping even more substantially. This marks a distinct change in attitude among Egyptian businessmen, who until now had insisted that the global economic slowdown had yet to reach Egypt.

[1](#)4. (SBU) Though we were prevented from touring the factory (reftel A), the Chairman of Misr Spinning and Weaving, Fouad Abd el Alim Hassaan, told us that the domestic market now accounts for 70% of the company's sales, down from 50% last year, implying that, at a minimum, exports had dropped nearly in half. Hassaan, also complained that business was being negatively impacted by increased competition from Pakistan and India. The recent depreciation of the currencies in both

countries were making them much more competitive in global textile market. Founded in the 1920's, Misr Spinning and Weaving is the oldest and largest state-owned textile factory and employs more than 24,000 workers. It was also the site of large scale labor protests in 2008 (reftel B). Hassaan assured us that there would be no layoffs from the company, but that some labor lost to attrition would not be replaced.

15. (SBU Beshir El-Sharoud, the General Manager of the Nile Agricultural Industry Company (AGA), a large producer of juices, jellies, and frozen vegetables, told us that business remains strong, though he complained that competition from India and China is increasing. AGA, he told us, exports 75% of its products with about half going to Saudi Arabia and the Gulf, slightly less going to Europe and Africa, and only about 5% going to the U.S. El-Sharoud told us that, despite the fact that his production was largely seasonal, he was able to use cold-storage and warehouse space to manage excess inventories. He also complained that the fall in the Euro (which has depreciated by more than 15% against the Egyptian Pound over the last 12 months) was negatively impacting exports.

16. (SBU) Companies exporting to Europe and the U.S. appear to be faring the worst. Hany Sultan of the Garment and Terry Towel Industrial Co. (GATT), told us that 95% of GATT's production is for export, with 80-85% of exports destined for the U.S. He told us that the company, which has an all-Egyptian workforce of 1200 workers, exports to the U.S. under the Qualifying Industrial Zone (QIZ) program. According to Sultan, the factory is running at 30-40% of capacity --approximately half as much as last year. Despite this, Sultan claimed that they were not planning to reduce their workforce.

17. (U) Gharbia and Dakahlia governorates are both important centers of agricultural and industrial production in Egypt. Though it was clear from our visits that the impact of the slowdown in the global economy were being felt in the Egyptian Delta, there were plenty of signs of strong domestic consumption evidenced by substantial commercial activity and construction.
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